THE NATIONAL CITY BANK OF NEW YORK

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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE past month has been a particularly trying period for American business. The daily record of bank failures and continued weakness in agricultural prices have had a decidedly depressing effect. At the same time, news from industry, which even in normal times is seldom very inspiring at this time of year, has been even less calculated than usual to instil enthusiasm. Holiday retail trade, judging from the preliminary reports, appears to have done fairly well, all things considered, and to have been about as good as expected. Dollar totals of sales will certainly show considerably under those of a year ago, but this is due in part at least to lower prices. Merchants generally report that the volume of goods sold would compare favorably with that of last year, with buying, however, concentrated more in the cheaper goods.

Nevertheless, reflecting the bank failures, lower commodity prices, selling to establish tax losses, and the depressed state of industrial activity generally, the stock market has been under pressure of further liquidation, prices have sought new low levels, and the general atmosphere of pessimism has been intensified thereby.

Capital Gains Tax Again

The stock market in the last three months has afforded another demonstration of the harmful effects of the attempt to tax as ordinary income the profits realized on capital sales. We have called attention several times to the fact, familiar to all observers, that during the period of rising prices this tax levy influenced holders against taking profits, thereby preventing the realizations which would naturally occur, and contributing to price and credit inflation. Recently, the law has been plainly working in the opposite direction, by inducing sales for the purpose of registering losses which can be offset against income from other sources, thereby reducing the taxes to be paid in 1931. The opinion generally held among close observers of the market is that this selling has been an important factor in the weakness of the market in recent months. It was clearly visible in the security transactions of the last day of the year, when only sales for cash could be closed in time for the results to figure in the year's income returns. With prices at the low levels prevailing, and little prospect of an early rally, security holders have preferred to realize the losses they had in sight and make sure savings upon income taxes, rather than carry their holdings longer. Thus the tax on capital gains is seen to accentuate both inflation on the rising market and depression on the falling market. It was harmful to general business in 1928 and 1929 by inducing holders to keep stocks which but for the prospective taxes they were inclined to sell, thereby contributing to an abnormal credit situation, and it has been harmful to general business in 1930 by inducing holders to accept losses which would reduce the sum of their taxes in the following year, thereby contributing to a depressing influence which has affected trade and industry as well as the stock market.

Business Not Discouraged

Despite these handicaps, those who have broad contacts with business men over the country see no signs of discouragement. Business men are, indeed, more sober in their judgments of the future. They are no longer looking for an early and easy recovery. They see more clearly that good times have got to be won back through hard work and willingness to adapt oneself to new conditions. There is less attempt at prediction and more thought being given by individuals to the particular jobs which they know best,—their own businesses. With the collapse of the boom and moderation of an over-stimulated demand, it is conceded that we face a period of intensified competition, in which low costs and ability to anticipate market trends will be more than ever important prerequisites to success. All these, however, are healthy and encouraging symptoms, for they mean that emphasis at last is beginning to be put in the right place.

That the American people will suddenly wake up and view all the complex domestic and international problems that face them in the light of pure reason would be too much to expect. No people have ever done that, and none ever will until the millennium. In fact, when one considers the disregard for economic law which in varying degree constantly characterizes the administration of human affairs one wonders that we get on as well as we do. The answer is, of course, that so long as we go on requiring food, clothing, shelter, and reasonable facilities for recreation there exists a powerful pressure of necessitous demand which over-rides mistakes and sooner or later swings us back into our stride after every period of faltering.

Schooled in the tradition of prosperity, the average American business man is essentially an optimist, and once he can see that he is not going to fall over the precipice he will not be long in regaining his spirit of enterprise. That optimism has its dangers at times is not to be denied. But while it contributes to rash excesses in boom periods it also leads to quicker recoveries after depressions. Barring occasional fits of gloom produced by some particularly black day in Wall Street, business men are not generally downhearted. In fact, it is a common saying that the further one gets away from Wall Street the less one hears of pessimism. For the average man, the tendency, as he turns the page on 1930, is to give a sigh of relief, feeling he has left the worst behind him.

During the first quarter of 1931 some considerable stepping up of industrial activity is assured as the steel, automobile, and various other industries swing into seasonal production, while later in the Spring seasonal expansion of construction work may be counted on to add impetus to the forward movement. Whether these increases will measure up to or exceed normal proportions is not now clear, but in view of the many perplexing problems facing business both here and abroad the tendency is not to expect too much. If it can be made evident during the next few months that business has indeed touched bottom and is ready for improvement that will be satisfying to most people even though the rate of recovery be slow.

Constructive Features of the Situation

Meantime, hopes for 1931 continue to be based chiefly on the drastic curtailment effected in output, indications of depleted stocks of manufactured merchandise, and the free availability of credit whenever business wants to use it. While lately the unsettled conditions in the bond market have prevented borrowers from obtaining funds through that channel, this situation must be regarded as temporary, as practically all indices point to a stronger bond market once general financial conditions become more settled.

It is a satisfaction also to note that while the number of bankruptcies in industry and trade is large the aggregate of liabilities is relatively small. The main business structure of the country is going through the crisis remarkably well. This is a fact which the public may well bear in mind when the annual earnings statements begin to appear over the next month or so. Undoubtedly these statements will show a big falling off in earnings, and the public should be prepared for unfavorable comparisons, but it must be remembered that the current figures are being measured against those of unusually prosperous years. If comparison is made with other depression years it is believed that the 1930 figures will make a relatively good showing. With an absence of unwieldly inventories, business has been in a better position than in previous depressions to maintain a rapid turnover and prevent inventory depreciation, and the banks are suffering nowhere near the losses on their commercial accounts that they did in the 1921 depression.

One further important fact worth bearing in mind in connection with the outlook for 1931 is that 1930 has been a year of debt paying, when a large part of the current income of the people has been absorbed in liquidating all sorts of obligations incurred during the period of free spending. Of stock exchange credit alone the American people have paid off upwards of $6,500,000,000 since the 1929 peak, to say nothing of the liquidation of instalment credit and other forms of indebtedness. As soon as this liquidation is completed it means the release of an enormous amount of funds for current purchasing. And not only that, it means also that people, having paid off their old debts, are once more in a position to contract new ones and to start all over again the process of supplementing current funds by anticipating future income. This is always the way in which the clean-up after a period of excess lays the foundation for a new period of expansion.

Money and Banking

On December 24 the Federal Reserve Bank of New York reduced its rate for rediscounting from 2½ to 2 per cent, establishing another new low record for the sixteen years history of the Federal Reserve System. This action marks the seventh successive reduction from the 6 per cent rate that was in effect from August 9, 1929, to November 1, 1929. The New York rate is now the lowest maintained by any central bank in the world and, to our knowledge, has not been equalled since the period of low interest rates at the beginning of the century, when 2 per cent was quoted by the Bank of

England and the Bank of France. The Federal Reserve Bank of Cleveland reduced its rate from 3½ to 3 per cent, effective December 29.

Open market rates showed no appreciable change during December from the unusually low levels that have prevailed since the early part of 1930, save an increase in the call money rate from 2 to 4 per cent at the close of the month, caused by the customary withdrawals over the year-end by certain lenders. Time money is reported in fair supply, ranging from 2 to 2¼ per cent for periods up to 30 days, to 2½ @ 3 per cent for maturities up to six months. The above rates apply only on stock exchange loans made in round amounts against readily marketable collateral and reflect the temporary surplus of short-term banking funds. They are necessarily below the over-the-counter rates for ordinary loans to customers. Commercial paper is being offered in the open market at 3 @ 3½ per cent, with some extra prime names at 2¾ per cent, exclusive of the selling commission paid by the borrower.

In line with the general downward trend in interest rates, the New York Clearing House Association again lowered the maximum rates of interest paid on domestic deposits to 1 per cent on deposits of individuals, banks and trust companies, and 1½ per cent on deposits of mutual savings banks. These new rates on demand deposits became effective December 27 and superseded the schedule put into effect on June 26 last, but the rate on time deposits was left unchanged at 2 per cent. Similar downward revision of rates of interest paid on deposits, particularly time deposits, so as to bring them in line with the rates of return that can be obtained on conservative investments, was announced by commercial and savings banks in a number of additional cities during the month.

Increase in Acceptances

Coincident with the rediscount rate reduction by the Federal Reserve Bank of New York, its rates for buying bankers' acceptances were lowered from 1⅞ to 1¾ per cent for bills running up to 120 days, and from 2¼ to 2 per cent for longer maturities. Similar rates have been announced by the Federal Reserve Bank of Boston.

The substantial size to which the acceptance business has been developed by American banks and the manner in which it has been maintained during the past year may not be fully appreciated by those who measure credit conditions by the published figures of the banks alone. An over-abundance of funds seeking prime, short-time investment has driven down the rates at which acceptances can be sold and thereby increased the attractiveness of this form of financing in competition with ordinary bank borrowing. In this way, the decrease in bills discounted by the banks has been partially offset by an increase in acceptances executed by the banks but held by outside investors, as well as by larger holdings of acceptances by the banks themselves.

During the month of November there was an increase of approximately $63,000,000 in the volume of acceptances outstanding, bringing the grand total to $1,571,000,000. This was $86,000,000 below the unusually high total reached at the end of November 1929 but, taking into consideration the decline in the price level, this 5 per cent decrease would represent an actual increase in the volume of commodities financed. Outstanding acceptances drawn to finance exports increased during November from $407,000,000 to $422,000,000; domestic warehouse credits increased from $235,000,000 to $274,000,000; those based on goods stored in or shipped between foreign countries increased from $533,000,000 to $544,000,000 and established another new high record. Only minor changes in the other three types of credit, including imports, domestic shipments and dollar exchange, occurred.

Condition of the Member Banks

Liquidation of brokers' loans has continued unchecked and the thirteen successive weekly decreases that have taken place since the end of September aggregated $1,303,000,000 and reduced the outstanding total to $1,919,000,000, the lowest figure since 1924. As compared with the high point of $6,804,000,000 reached on October 4, 1919, the reduction now amounts to $4,885,000,000 or 72 per cent.

Contraction of total bank credit outstanding has proceeded more slowly, but since the middle of November there has been some decrease in loans and investment holdings, and in demand and time deposits on the liability side. Over the past year loans and discounts of the weekly reporting member banks have been reduced by over $1,000,000,000, leaving a considerable excess of funds to seek employment in the security markets. Thus, over the same period we find that the investments by these banks in United States Government and other securities increased by an amount closely equivalent to the decline in loans, a movement which is worth taking note of in view of all that is being said about the frozen condition of banking assets.

During the past month there has been a shifting of $100,000,000 or more in investments through the sale of non-government bonds, etc., into government securities by banks which, in view of the disturbed sentiment created by bank suspensions in different sections of the country, apparently desired to

build up the proportion of their investments that could be pledged with the reserve banks as a basis of credit. This action doubtless was an influence in the recent weakness in the market of corporate securities and the strength in government issues.

For the same reason, demand for currency increased earlier and more sharply this year than usually occurs with the approach of the holiday season. Between November 26 and December 24 the circulation of currency increased by $449,000,000, whereas in the corresponding period of the previous year the increase amounted to $201,000,000. During November the volume of currency in circulation ran below that of the previous year by about $300,000,000, but by December 24 had risen to within $44,000,000 of the total a year before. As a result, the total of rediscounts at the reserve banks, which on December 24 amounted to $448,000,000, compared with the $163,000,000 in September, the extreme low for 1930 and many years previous. However, these figures compare with $763,000,000 on December 24, 1929.

In addition to the increase in discounts and advances, the reserve banks have put additional credit into the money market by purchasing acceptances and government securities, so that during the four weeks from November 26 to December 24 the total of Federal reserve credit increased from $1,012,000,000 to $1,356,000,000. This action, combined with the reduction in the rediscount rate, is taken as definite assurance that the reserve bank authorities are following a policy of keeping credit plentiful and cheap, as an encouragement to enterprise. Rates for long-term money are still relatively high, but low rates in the short-term market tend to spread into the markets for bonds and mortgages eventually, as confidence is restored.

The Banking Situation

Bank suspensions during the first eleven months of 1930, as reported by the Federal Reserve Board, numbered 981 and involved deposits of $515,000,000, while in the nine-year period from 1921 to 1929 inclusive, there was a total of 5,642 suspensions involving deposits of $1,722,486,000. As mentioned in this review last month, over 60 per cent of the banks that closed were capitalized at $25,000 or under and located in towns of less than 1,000 population, while 80 per cent were not even members of the Federal Reserve System. The increase in 1930 over what might be called the average mortality rate is probably no greater than should have been expected, in view of the severe drop in security prices, farm products and other commodities, and the slump in business generally. Some of these banks were closed only temporarily, either by order of the banking supervisors or their own directors, so as to conserve their assets for the benefit of depositors, and have since reopened under their own names, by reorganization or by merger with other banks.

In the last issue of this Letter we commented at some length on the causes leading up to these widespread bank failures throughout the country. The fundamental cause is to be found of course in the great expansion of bank credit in what at the time was considered a wonderful period of prosperity, but in fact was a period of general inflation resulting primarily from the war. The basis of the inflation was the enormous demands upon our industries during the war time, together with the great additions to the bank reserves resulting therefrom. No such rapid additions to our gold reserves would have been possible in peace times and without them no such an inflation of credit could have occurred under our banking laws.

The rise of commodity prices and of wages resulted directly from the war, and put the country upon a new basis of values, which as people became accustomed to it seemed to be real and permanent. Wheat went above $3.00 per bushel in Chicago in the early part of 1920, corn above $2.00 per bushel, which stimulated a demand for farm lands and caused an active turnover at rising prices. These farm transfers were financed largely on credit, and the census reports show that in many States the aggregate of farm mortgage indebtedness doubled in the ten years from 1910 to 1920. This increase, of course, was not significant of distress at the time but of confidence and eagerness to use credit. It was due to a misinterpretation of conditions, and ultimately produced the conditions with which the rural banks have been struggling ever since.

For a period of fifty years land values had been generally rising, and public opinion was inclined to accept the war-promoted rise as merely a more pronounced development of a natural tendency. The rural banks became involved in loans which directly or indirectly were based on these land values. It has since developed that while the war gave a temporary stimulus to the prices of farm products, it gave a permanent stimulus to farm production, with the result that farm products are back now to pre-war prices, leaving the new indebtedness without adequate support. This is a plain statement of the grave situation with which the banks whose business is largely with farmers have had to contend. Another factor was the multiplication of banks during this period of false prosperity, when bank deposits were growing in volume rapidly, and many persons were becoming bankers without training for the business, to say nothing of experience with such conditions as were then

prevailing. The country became over-banked, and the banks over-expanded on the basis of inflated prices.

Nevertheless, in all parts of the country a majority of the rural banks have come through solvent and are able to meet their obligations. A minority, unfortunately numerous, has been obliged to succumb. Similar conditions followed our Civil War, 1861-1865, and have been known in other periods of our history, although wars are the greatest disturbers of prices and credit conditions.

The Situation in the Cities

The situation has not been so serious in the important cities, for one reason because the banks of these cities have a greater diversity of business than is the case of banks in the farming communities; moreover, in larger institutions the management usually is in the hands of individuals of larger banking experience. Under our loose banking laws, however, banks are likely to spring up in response to popular wants, and if loose banking is wanted somebody is willing to supply it in boom times, for liberal commissions will attract persons into the banking business who will do it. Hence in most cities in recent years there has been a development of new banks, beginning small and growing rapidly on a class of business which the old established banks would not touch.

Neither of the two banks that have failed recently in New York City, and whose troubles have occupied columns in the newspapers and contributed to the pessimism of the time, were members of the New York Clearing House Association.

Clearing House Regulation

A period of bank failures always raises anew the question how the banking business may be more effectively supervised and regulated. We do not think there is any good basis for criticism of the administration of the banking department of the State of New York in the past year. It has been under the hand of an experienced banker, but he has had to deal with conditions which developed before his time and his task has been uncommonly perplexing. Moreover, regulation by law has limitations and a degree of inflexibility which make it inferior to another kind of regulation which has been developing in this country over many years.

It is a fact well attested by experience that the best regulation of banks is the regulation to which the banks voluntarily submit, and which they provide for themselves through their own organizations, the Clearing House Associations.

Clearing House regulation, like every other form of effective organization, has been a development in response to conditions, and some of the most effective features are of comparatively recent adoption, but it has become one of the most important features of banking in the United States.

The first Clearing House Association in this country was established in New York City in 1853, the primary purpose being simply to clear the checks which the members received on each other. However, the benefits of banking organization for conference and cooperation in the maintenance of sound policies had been urged long before. In 1831 Albert Gallatin, one of the ablest financiers and statesmen this country ever produced, publicly urged that the most effective influence for the maintenance of sound credit policies would flow from banking organization. He referred to the example of the London Clearing House and suggested the establishment of a like organization in New York. Then, as ever since, there were bankers who preferred to make their own policies unhindered, and have no obligations to the general situation, but after the Association was organized, and the habit of conference was formed, the scope and importance of Clearing House activities steadily increased.

One of the occasions which accomplished much in developing the policy of cooperation through the Clearing House was an emergency created by the election of Abraham Lincoln to the presidency in 1860. His election was taken in some sections as meaning that civil war was impending, and business relations between the North and South were sharply affected. Credit was paralyzed, the banks of New York suffered heavy withdrawals, particularly by Southern patrons, and faced the apparent necessity of either forcing a drastic reduction of loans or of suspending specie payments.

In this emergency the Clearing House devised the system of Clearing House Loan Certificates, repeatedly used afterward as a means of settling the balances arising between the member banks, and eventually as emergency currency. The effect in the instance named was to consolidate the resources of the member banks, afford greater freedom in making loans and inspire the public with confidence. One of the resolutions adopted at this time read as follows:

> **Resolved, That in order to accomplish the purpose set forth in this agreement the specie belonging to the associated banks shall be considered and treated as a common fund for mutual aid and protection, and the Committee shall have the power to equalize the same by assessment or otherwise.**

This was a long step in banking cooperation at the time, and with this experience the Clearing House became a powerful support to the national government during the civil war.

Again, in 1873, in the crisis which resulted from the war inflation, in 1893, in 1907 and in other crises the Clearing House took similar action. In 1907 nearly the entire country went to what was called a "Clearing House basis." The reason for clearing house certificates then was that practically no means existed for rapidly increasing the supply of currency. The circulation of Clearing House certificates throughout the country in 1907 educated the public to the need for a ready and safe method of creating lawful currency, and led to the establishment of the Federal Reserve banks. Until the Federal Reserve Act was passed the voluntary Clearing House Associations constituted the only safeguard the business of the country had against the paralysis of credit resulting from time to time from financial crises. The Clearing Houses demonstrated the principles of the Reserve system.

Clearing House Examinations

There were numerous instances during these years of bank failures among members of the Clearing Houses of New York and other cities. Individual banks would become involved in losses through bad management, and their condition would develop as a surprise to their fellow-members of the Clearing House. Each time the question would arise, whether to carry the bank through its troubles, for which the other members were in no way responsible, or let it fail, with the resulting losses, alarm and reflection upon the banking business generally. Sometimes one course was followed and sometimes the other.

From this recurring experience finally developed one of the most important safeguards of the banking situation, the system of Clearing House examinations. This system was first adopted in Chicago, and the developments which led to it were described some years ago by an eminent Chicago banker so succinctly that we reproduce them here:

On a Saturday in December, 1905, the Clearing House Committee was confronted with a serious condition of affairs, involving the fate of three banks that were under the control of one management—a national bank, a savings bank and a trust company—all of which were in serious difficulty.

After sessions covering the good part of two days the Clearing House Committee on Sunday realized the importance of calling together all of the members of the Clearing House Association, and at two o'clock Monday morning the Clearing House banks of Chicago agreed to pay off the depositors of those three institutions. The Clearing House banks took over the assets and assumed the task of paying about $20,000,000, so that all of the depositors were paid on Monday morning, or at least as soon as they presented their books they got their money.

The Clearing House banks assumed the payment of this large sum of money in order to avert a general disturbance which might ultimately involve the entire business community. The member banks that assumed this obligation will never be repaid in full.

The members of the Chicago Clearing House accepted that experience as teaching them the importance of having trustworthy knowledge through their own examinations of the condition of every fellow-member in their organization. If the failure of one member might be so important that the Association as a whole could better afford to assume its obligations, they concluded that thereafter it should be one of the conditions of membership that each member would submit to examination from time to time under the supervision of the Association.

The New York Clearing House Association followed the Chicago Association in adopting the system, and there have been no failures among the members of either of these associations since the system of Clearing House examinations was adopted.

This examination of course is not a substitute for the examinations conducted by the National and State banking authorities, but additional to them. The Clearing House examinations occur at least once a year, and may occur at any time.

A former Comptroller of the Currency has said of the Clearing House examinations that they are "infinitely superior to State or Federal examinations," because of the better knowledge which the supervising authority has of individual credits. An official examiner of either the national or state systems, coming into a city to make an examination, is not free to discuss with rival bankers the character of paper which he finds in an institution he is examining, but the Clearing House Committee which is supervising an examination has all sources of information open to it.

The chief gain, however, from the system of Clearing House examinations is in the basis of confidence which it affords for united Clearing House action. When the body now takes action to support any of its members, it is an informed action. The element of surprise is practically eliminated. Moreover, knowledge that the Clearing House is thus informed obviously is assuring to the public.

The number of Clearing House Associations in the United States as given by the last report of the Comptroller of the Currency is 244, which shows that the system reaches to all cities of considerable size and practically covers the country. The system of Clearing House examinations is considered too expensive for the smaller Associations to maintain, but about 30 Associations in the larger cities are maintaining it. The country would be better served with fewer banks and a general extension of the system of Clearing House examinations to include even county associations in the rural districts. It is a far more practical system of protection than the guaranty of deposits.

Of course, the Clearing House Associations and the entire banking situation are much stronger than formerly by reason of the Federal Reserve system, with its consolidated

reserves and the power to issue currency, which in itself consists of promises of the United States Government. The Clearing House Associations are of great value for the supervisory authority which they exercise over their members, and with sound banking conditions the Reserve banks are able to give the elasticity to the currency supply that formerly was lacking.

The Bond Market

As measured by the hopes of last spring, the action of the bond market during 1930 has been distinctly disappointing. Upon analysis, however, the perplexing and discouraging events of the recent past become comprehensible, and the existing situation is seen to carry optimistic rather than pessimistic implications for the future.

After having been relegated to the background for nearly two years by a boiling stock market and rising interest rates, the bond market began to show real signs of vitality during the past Winter and early Spring. An irregular advance in prices was inaugurated in December, 1929, which was felt during the succeeding four months by all save the most speculative issues. This upward movement tended to lose momentum, however, with the approach of Summer and was changed into an almost vertical decline during October and November. To obtain a clear picture of these developments, it is essential to understand the implications of two important factors. The first is the sharp divergence of trend that has developed between prime investments and those that may be classed as second-grade. The second is the influence upon the market caused by the institutional character of the demand for bonds during the past year.

During the first quarter of 1930, short-term interest rates were declining steadily, and an almost unanimous belief existed that the business depression would be short-lived. Consequently, there was little doubt regarding the adequacy of corporate earnings for the payment of interest, and second-grade bonds tended to advance along with prime investments. Rising prices in turn brought forth a large volume of bond financing, new issues floated in the United States during the first three months of 1930 totalling $1,859,000,000 against $1,080,000,000 for the same period in 1929.

Discrimination Between High Grade and Second Grade Bonds

A second phase of the market appeared in the late Spring, when it became evident not only that an early recovery of business could no longer be anticipated, but also that the depression was worldwide in scope. At that time, increasingly sharp distinction was made by investors between prime bonds and all others for which the risk factor was a consideration. The former continued to advance under the influence of cheap money, while the latter tended to remain dormant or else to decline. First amongst the domestic issues to feel this reactionary influence were second-grade industrial bonds, which tended after April to follow the downward course of corporate earnings. In the case of foreign dollar bonds, a similar divergence appeared. The rising tide of political and economic disturbances, particularly in Central Europe and Latin America, caused sharp declines in the bonds of all countries involved. On the other hand, certain foreign issues, such as those of the French Government, and the Scandinavian countries, whose stability was unquestioned, continued firm throughout the Summer.

The contrast between high-grade and second-grade bonds was greatly accentuated by the character of the investment demand. Whether from a continued preference for common stocks, or as a result of financial embarrassment, the small individual investor has played a very minor role in the bond market during the past year. Investment buying has been confined very largely to large institutional investors, such as commercial banks, savings banks, insurance companies, etc. Total investment holdings of the weekly reporting Federal Reserve member banks showed an increase of $1,244,000,000 during the first eleven months of the year. It is important to note, however, that this impressive gain has been largely accounted for by banks in the leading financial centers where a condition of monetary ease has been most apparent. Country banks, as a class, have shown relatively little ability to absorb investment issues. In addition to a general absence of loan liquidity as a result of agricultural distress and other causes, considerable shifting of deposits from rural districts to large city banks has taken place. This factor has tended to enhance the investment buying power of urban institutions and further to restrict that of the country banks.

With the small individual investor and the country bank largely eliminated, the market for second grade issues has been extremely limited. On the other hand, the large city banks have tended more and more to confine their purchases to issues of the very highest grade. This combination of factors has been a potent influence in widening the spread between prime and second grade securities.

Effect of the Business Depression on Bonds

This tendency continued to develop as the depression wore on into the Fall and it became apparent that hopes for a business recovery once more had to be postponed. Price weak-

ness spread steadily to higher grade issues as corporate earnings continued their downward trend. An outstanding example of this has been seen in the case of railroad bonds. High grade rails moved steadily upward from December 1929, to the end of last September. At the latter date many such issues were selling at levels above the previous peaks of early 1928. During October and November, however, it became apparent that many seasoned issues might fail to meet the legal requirements for savings bank investments. The fear of this eventuality has caused an abrupt decline in railroad bonds of almost every description.

Two other factors have also contributed to the recent collapse of bond prices. The first has been the withdrawal, to a large extent, of life insurance companies from the market in order to meet an unusually large demand for loans from policyholders. The second has been the epidemic of bank failures that has cropped out in various sections of the country during the past few months. This situation has caused considerable forced selling of securities and has led in turn to a wave of selling by perfectly sound banks in order to increase their liquidity. The financial unsettlement in turn has disclosed a state of security indigestion which has been dormant for several months. Although the bond market began to lose its upward momentum as early as April, there was no appreciable slackening in the volume of new issues until August. During the first seven months of the year total bond offerings amounted to $4,431,000,000 against $2,897,000,000 for the same period in 1929. A large volume of securities remained in dealers' hands or else were weakly placed, and have recently tended to come back into the market. As a result of this combination of depressing influences, no class of bonds, except United States Government securities, has been immune from the precipitous decline of recent weeks.

The Outlook for Bonds

Turning now to the present situation and the outlook for the future, we find ground for optimism regarding the bond market. Despite the discouraging sequence of past events, the fundamentals of the situation seem sounder than at any time in many months. The primary cause of the recent decline has been the temporary effect of declining confidence, first in the business situation, and lately in the financial situation. The latter is based upon unreasoning fear and will tend to disappear as quickly as it arose, when the public realizes that the financial structure of the country is impregnable and unimpaired.

Bond yields are now definitely attractive. Three months ago, when high grade bonds were selling around the 1928 peak levels, considerable doubt was expressed regarding their ability to go any higher. Since that time, the gains scored during the preceding ten months have been entirely wiped out for all except a restricted group of prime investment issues. At present the great majority of bonds offer the highest yields that have been obtainable since 1923 or 1924.

There has also arisen recently a widespread belief that banks throughout the country are overloaded with bonds which they will be forced to liquidate over a long period of time. This belief has arisen largely from the rapid increase in commercial bank investment holdings since the first of the year. An examination of the table below, which compares the growth of time deposits and investments of reporting member banks during the past ten years, shows that while such investments have increased in the last year the ratio of increase in relation to the growth of time deposits has been distinctly less than in the years from 1921 to 1926.

Time Deposits and Investment Holdings of Reporting Member Banks, 1921-1930

	Time Deposits (Millions	Total Investments of Dollars)	Ratio Total Investments to Time Deposits %
Jan. 1921	2,909	3,266	112.3
" 1922	3,011	3,467	115.1
" 1923	3,748	4,608	122.9
" 1924	4,104	4,382	106.8
" 1925	4,849	5,341	110.1
" 1926	5,361	5,152	96.1
" 1927	5,845	5,114	87.5
" 1928	6,538	5,955	91.1
" 1929	6,912	5,931	85.8
" 1930	6,847	5,572	81.5
Dec. 10, 1930	7,355	6,816	92.6

Over a long period of time there is a normal tendency for bank investments to increase in direct proportion to the growth of time deposits. The above table shows that this relationship was closely maintained between 1921 and 1925, but between January, 1925, and January, 1930, the increase in time deposits was approximately $2,000,000,000, or 41 per cent, while investment holdings showed practically no net gain at all. This was due to the high rates of interest ruling in the short term money market, which was a result of the active and rising stock market. This situation is now reversed; bonds are again yielding better returns than short term loans, and it is reasonable to believe that the present plethora of funds in the day to day market will before long lead to a better demand for bonds. Even if investment holdings do not rise to the earlier percentage relationship, it is safe to assume that present holdings are not excessive in relation to time deposits, and that from

now on the growth of investments may be expected to approximate past relations to such deposits.

With the prospect for an indefinite continuance of low interest rates, the outlook for the bond market appears distinctly promising. A study of the past shows that the bond market as a whole, as well as the stock market, usually tends to decline under the influence of general liquidation, and that a general advance may be expected when confidence begins to recover. Without venturing to set the date for such recovery, it is safe to predict that an impressive and sustained advance in bond prices will be witnessed when financial confidence is restored and an upturn in business gets under way.

The Agricultural Situation

The situation in agriculture is set forth in all its complexities by the annual reports of the Secretary of Agriculture and the Federal Farm Board, made public during the past month, and in the annual computation of the farm value of the crops, calculated as of December 1st. The latter makes the poorest showing in several years, for according to it the aggregate value of the crops is but $6,274,824,000, against $8,675,420,000 last year, a decrease of approximately $2,400,000,000, or about 27 per cent. The report of Secretary Hyde, however, estimates gross farm income at only 16 per cent under that of 1929. The difference between the two arises from the fact that the gross income includes the proceeds of the dairy and livestock industries, in which prices have not declined as much as in the case of the field crops. The value of the crops is calculated at cash values, as though all were sold on the market, whereas in fact the crops are largely consumed on the farms and farm income is increased thereby. The Secretary's estimate, therefore, may be accepted rather than the crop estimate.

It reflects a heavy loss of income to the farm population, but not on the whole worse than that suffered by other industries. The gross reduction of railroad operating revenues, for instance, has been about 15.5 per cent and loss of net about 24.2 per cent. The loss of net income of 360 corporations making public returns for the first nine months of this year, in comparison with the corresponding period of last year, was 38.7 per cent. Moreover, the net loss to the farmers is not as great as the figures for gross loss indicate, since the costs of farming operations have been lower in many respects this year, and the prices of goods which farmers have to buy for their own consumption are lower.

The agricultural situation is confused by the revolutionary changes that are in progress, but the forward-looking leaders are not discouraged about the future of agriculture for the up-to-date farmers. Mr. A. B. Genung, who has been many years on the staff of the Bureau of Economics of the Department of Agriculture has an article in Hoard's Dairyman, December 10, 1930, from which we take the following as summing up the changes:

> Can you remember how things were back there only ten years ago, at the beginning of 1920? How little we dreamed, in January, 1920, of the changes that were to overtake farming so soon. Who could foresee then that within a few months the bottom would drop out of the prices of farm products and plunge agriculture into one of the worst depressions of all time? Who could foresee then that before 1930 the road horses would be replaced by automobiles, thereby ending the market for 20 million acres of grain and hay? How many of us then foresaw the full spread of the combine, the tractor, the new power machinery of all kinds? Who foresaw the net movement of more than three million persons, bag and baggage, away from the farms and into the cities?
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> * * * *
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> But while these things have been happening to agriculture, equally striking changes have come within agriculture. I have not time to sketch that side of the picture. But it can be summed up by saying that one net result has been a marvelous forward stride in the efficiency of production. The American farmer today is by far the most skillful producer of foodstuffs and fibers that the world has ever seen. He produces about three times as much per man as his nearest European competitor.
>
> It is this marvelous accomplishment which puts the farmer in position to face these next ten years with confidence.

The Experiments with Price Stabilization

Interest centers upon the experiments of the past year in price stabilization, and both the Secretary of Agriculture and the Farm Board frankly say that the mere buying of products for storage is not an effective remedy for continuing surpluses. Their statements are broad enough to cover several other proposed remedies also. Thus the Secretary says:

> By this time it is evident that supply and demand conditions cannot be set aside by legislation, that the dumping of surpluses abroad is not feasible, that the indefinite storing of surpluses tends to prevent, rather than to cause, a rise of prices, that tariff duties are not effective on commodities produced largely for export, and subsidies would increase rather than restrain production.

The Farm Board reviews its efforts in the past year, and justifies them on the ground that they have represented an attempt to faithfully carry out the policy called for by the new law. This we think it is warranted in affirming. The results of the year's operations are not pleasing, but undoubtedly they might have been worse under less capable management. We never have expected good results from the Farm Board Act, but have repeatedly expressed the opinion that the personnel of the Board was probably as good as could be obtained for the undertaking.

The Board describes at considerable length some of the practical difficulties which it has encountered. In the early stages of its work it became convinced that "no important stabilization efforts could succeed, except

temporarily, unless farmers themselves adjusted production to prospective demand." An intensive investigation of wheat developments in recent years and of the world wheat outlook was undertaken in cooperation with the Department of Agriculture. "This investigation made clear that world wheat production had been outrunning wheat consumption and that, for five or six years, carry-overs had been piling up, both in this country and in the world at large." "It also appeared that the trends of acreage and production in various wheat-producing countries, and of wheat consumption as well, were such as to threaten continued depression of wheat prices."

In the face of this situation the Board reached several definite conclusions, stated in its own language as follows:

The board could see no hope for arresting such a movement, or preventing its serious consequences to American wheat farmers, by co-operative marketing as such, by stabilization measures of the type already employed, or through adopting any of the proposed measures designed to dispose of the surplus abroad at prices below domestic levels. The obvious and economic remedy for the overproduction of wheat, to which our own wheat growers are contributing, is curtailment of production, with a view to reducing and, if possible, eventually eliminating our export surplus, so that the tariff might become effective on American prices.

Lower Production Costs

The most important factor in the changing wheat situation, the declining cost of production by means of improved farm machinery, is not mentioned in the Farm Board report. There is well attested evidence that wheat is being produced in many sections of this country at costs which enable a satisfactory profit to be made at present market prices, and possibly at even lower prices.

The Department of Agriculture has given out the following statement of wheat harvest hours under the various methods from the sickle and flail to the combined harvester and thresher of today:

When wheat was harvested with a sickle and threshed with a flail, from 35 to 50 hours of labor were required for harvesting and threshing an acre with a yield of 15 bushels. The introduction of the cradle saved about 10 hours per acre. At present farmers in the Great Plains use from 4 to 5 hours in harvesting an acre of wheat with a binder and threshing from the shock with a stationary thresher; from three to four hours when the crop is harvested with a header and threshed with a stationary thresher; and an average of three-fourths of an hour when the combined harvester-thresher is used.

Up to the Individual Farmer

The Farm Board report indicates that while that body leans to the idea of general curtailment of acreage, it agrees with Secretary Hyde that this cannot be brought about by compulsion or any policy of enforced restriction. It says:

The Board recognizes that in order to obtain effective and appropriate readjustments in the production of wheat, or any other farm product, a very complex task is involved. The most profitable readjustments are different in different sections. The broad facts as to the outlook for wheat and other products, and also more specific knowledge as to local applications of these facts as well, must be developed and brought home to individual farmers.

The admission that the adjustment of production to demand must be left to the free action of individual farmers, in order that it may conform to varying conditions in different sections of the country and upon different farms and even the varying circumstances of individual farmers, exposes the fundamental error in the theory that production is subject to direction and control in the mass. Production cannot be advantageously directed in detail from Washington or cooperative headquarters, although information and advice from these may be given, to be considered by the individual farmer with due regard to the conditions immediately affecting him.

Obviously it is the new machinery which is increasing the production in the plains region of this country, and in all the countries where new lands are available, notably Russia, Canada, Australia, and Argentina. It is impossible that this development will not result in permanently lower prices for wheat in all markets.

The Wheat Situation

If Russia be omitted, the increase of wheat production since 1913 has been wholly outside of Europe. We give below figures for the countries that have given the principal increases, showing their average production in the five years 1909-1913 and latest estimates for their production in 1930:

(In Millions of Bushels)

	Av. 1909-13	1930
United States	690	850
Canada	197	396
Argentina	147	271
Australia	90	215
Russia	759	1,152
Total, 5 countries	1,883	2,884

Gain 1,001,000,000 bushels.

The total wheat production in 1930, exclusive of Russia and China, is estimated by the Department of Agriculture at 3,760,000,000 bushels, against 3,491,000,000 bushels in 1929 and 3,973,000,000 in 1928, the last named being the record year. Including Russia and China the total this year is not far from 5,000,000,000 bushels. The largest pre-war crop, (1913) was estimated at about 4,000,000,000. This was considerably larger than the average of preceding years.

The cutting off of supplies from Russia to western Europe during the war stimulated wheat production outside of Europe, and the introduction of new machinery has increased production since the war in the five countries named. A further increase of Russian acreage is predicted for next year.

Position of the United States

The position of the United States as regards wheat supply for the 1930-1931 year is about as described in the following table:

	Million Bushels
Crop	850
Carry-over	275
Total supply	1,125
Est. Consumption and seed requirements	580
Disappearance and cattle fodder (Gov't estimate)	236
Total Consumption	816
Exported up to middle of Dec.	80
Consumption and exports	896
Carry-over on July 1, 1931	229

Private estimates of wheat to be used as live stock feed this year are much smaller than the above, and range from about 140-200 million bushels. The estimates of wheat feeding were made when corn and wheat were selling at about the same price, but the Farm Board operations in wheat have sustained its price, while the price of corn has declined until it is 13 to 15 cents per bushel lower than its haughty rival and the inducement to substitution has been lessened. Nat Murray's estimate of wheat consumption by live stock is about 140,000,000 bushels. Any reduction from the government's estimate will tend to increase the above figure for carry-over.

Exports of wheat from the United States in this year thus far have aggregated about 80,000,000 bushels, but with wheat over 20 cents per bushel higher in Chicago than in Winnipeg and almost as much higher than in Liverpool, sales for export of course cannot be made. The Farm Board's support of the domestic market has ended export business. Mr. Legge admits that the Board will hold practically the entire carry-over at the end of the crop year. The export flour business, built up by our mills by assiduous cultivation over a long period of years, also is dead, unless it may be kept alive by grinding on wheat imported in bond, and of course somebody will be alert to prevent that. There is a prevalent idea that if you cannot make your own business prosper the next best thing is to prevent some other business from prospering.

What Next?

That the Farm Board, with the help of the 42 cent tariff on imported wheat, will be able to maintain the price in domestic markets for the remainder of this crop year can hardly be doubted, but what then? The Board in its report describes how present prices are interlocked with futures, as follows:

Purchases in the cash market alone are inadequate to sustain prices and do great injury to legitimate operations in the option market by throwing cash prices out of line with the futures. This being true, a stabilization activity must be conducted along the entire line with the inevitable result that large purchases for future delivery must be made. Wheat thus secured by delivery on futures contracts is contract grade and may vary in actual value from 2 to 5 cents below country-run wheat.

Transactions in the futures market having been entered upon, there is no good place to stop, even within the limits of a single crop-marketing period. Option prices are published covering a period of from six to nine months in advance, and as soon as any future option is abandoned or militated against, that option gets out of line with the cash market and other options. This imposes considerable hardship upon processors whose customary practice of hedging or insuring their purchases is conducted through the futures market.

This is the situation now confronting the Board. It has been supporting the May option at about 81-82 cents, to correspond with December figures of about 76-77, but has been giving no support to prices beyond the end of the crop year, July 1. Consequently contracts on new crop wheat, July delivery in Chicago, have been made under 62, or as much as 20 cents under the May delivery. As the Board, in its graphic account of its troubles has said, this is abnormal and harmful to legitimate business, but the alternatives are for it to drop prices on this year's crop or commit itself to an artificial price level on next year's crop. Moreover, prices on the 1931 crop will soon have a relationship to prices on the 1932 crop and where will the Board find a stopping place on this wild journey, particularly if Russian exports continue to increase and farmers everywhere continue to buy the modern machinery?

The Farm Board has made a vigorous plea for curtailment of wheat acreage, the campaign including a special tour into the southwest wheat country. The Department of Agriculture now estimates that Fall plantings are but 1.1 per cent lower than last year, and it is a question whether the drought did not have more to do with this reduction than the Board's campaign.

Operations in Cotton

The story of the Farm Board's unsuccessful operations in cotton is told with the same frankness and detail as the story of the struggle against unpropitious conditions in dealing with wheat. Briefly stated, conditions appeared to the Board to be favorable to an attempt to stabilize cotton at 16 to 18 cents per pound, but appearances were deceptive. The price soon declined to a level which made it impossible for the cooperatives to whom the Board had loaned money on this basis to dispose of it and pay the loans and carrying charges. The situation "threatened not only serious loss to the cooperatives but demoralization of prices throughout the cotton world." However, the Board had prepared for such a contingency by organizing the "American Cotton Cooperative Association," which was able by means of more loans by the Farm Board to step into the

breach and prevent any other misfortune than a further decline in the price of cotton and further internment of funds belonging to the so-called "revolving fund."

"In the case of cotton, as with wheat," the report says, "it was clear in the Winter of 1929-30 that the successful outcome of stabilizing endeavors was dependent upon the cooperation of cotton-growers." The production of cotton being in excess of the consumption demand, the Board called for a reduction of the acreage planted to cotton. This was before the 1930 planting season. In justification of its policy, the Board says that "it would manifestly be impossible, through stabilization operations or in any other way, to maintain cotton prices at the level of the loan basis used during the last year in the face of continued excessive production. The Board has made every effort to correct the impression which has obtained in some quarters that it might attempt such an impossibility." In conclusion it says:

> Only limited success attended these endeavors toward acreage reduction in the 1930 planting season, and the failure of cotton producers to bring about substantial curtailment in the cotton production of 1930 has contributed heavily to defeat the purpose of the stabilization measures that were undertaken in cotton. Much more extended and intensive efforts to secure readjustments in cotton production, in the face of a carefully considered world outlook, are planned for the planting season of 1931.

Lessons from the Year's Experience

The members of the Farm Board have urged in behalf of the experiment which they have been conducting that without the purchases which have been made, from the government fund, prices—particularly of wheat—would have fallen considerably lower; also that pegging the price at 76 cents, Chicago, has given a stable basis for milling operations and the flour trade, where otherwise there might have been a state of confusion similar to that which has existed in Canada and other countries. This may be accepted as probably the case. Whatever the losses may prove to be they do not, of course, represent a total loss to the country, for in the case of wheat the purchases have served to break the force of a radical readjustment of prices and thus prevent even more demoralizing effects upon the general business situation. It should be added, however, that the break has been nothing like as severe as that of 1920-21. In January, 1920, cash wheat in Chicago sold up to $3.50 per bushel, in November, 1920, sold down to $1.58 and in November, 1921, sold at $1.00½.

No benefits can be expected, however, from this intervention at the expense of the Treasury, if the policy has the effect of encouraging the production of wheat by growers who are not in position to compete upon the price level which seems likely to be permanent in the future.

Recognition should be given without delay that wheat production in the future is likely to be dominated by large scale, low cost operations, and moreover, that it will not be a public misfortune if all wheat is produced in this manner. That new achievements of science and invention shall reduce the labor costs of the common necessaries of life surely is not to be considered a misfortune. If the cost of food and clothing could thus be reduced one-half or more, what a gain it would signify to the masses of mankind! They would have that much more with which to provide better housing quarters or expend in other ways. Some temporary derangement results from all such changes but improvements are not to be opposed for that reason.

Mr. Legge's personal reaction to his job may be inferred from some of his remarks recently made before the Association of Land Grant Colleges when he said, in part:

> Perhaps one of the most piteous features in this whole situation is that many farmers have been led to believe that through some mysterious process the government or somebody else could remove and dispose of any surplus quantity of anything that he was able to offer; that working out or improving the situation would necessitate no action whatever on his part, that his representative in the state legislature or Congress would find the happy solution for all his troubles.
>
> The longer the farmer holds to these illusions the longer will be the period required to find any satisfactory solution for his problem. The Government can aid and assist him, first in ascertaining and bringing to him facts as to what the situation is, second, offering suggestions as to how his problems can be met, and lastly, helping finance his co-operative organizations, but in the last analysis he has to do the job if anything is to be done.

All of the agitation and efforts for farm relief legislation in the last ten years have led the farmers to this belief, which Mr. Legge calls a "piteous feature of the situation."

Fallacies of the Legislation

The responsibility for failure of the Board's efforts cannot be laid wholly upon the farmers. The real responsibility is chargeable to the enactment of a law that is inherently impracticable, because founded upon fallacious theories. Its primary fallacy is revealed in the title and first section, which states the broad objective to be "the placing of the industry of agriculture on a basis of economic equality with other industries." It is impossible to say authoritatively what would be a basis of economic equality between agriculture and other industries, much less establish such equality by law. The language implies that a certain number of persons have been born into agriculture or otherwise fixed there and have no way of getting out or of altering their position in it; moreover, that outsiders have no right or power to get in. On the contrary, there is freedom of movement between agriculture and the other industries, and this is the best assurance that can be given for

equality of relations. The distribution of population in the industries is voluntary, guided by choice and the compensation obtainable. Moreover, it is adaptable to changing conditions—the changing needs for the products of the different industries and changing methods of production. The equilibrium in industry which is necessary to prosperity is maintained through this adaptability. The percentage of the population required to supply vehicles of travel has been increased by the development of the automobile. The percentage required in agriculture to supply the demands for its products has been continuously declining for more than one hundred years. It declines with the advancement of science in treatment of the soil, cultivation of plants, the breeding of animals and the development of tools and implements for doing the necessary labor in soil preparation, planting, cultivation and harvesting. The economic returns from farming depend, for the individual, upon the intelligence and diligence with which he makes use of the knowledge available to that occupation. and for farmers as a body to an intelligent adjustment of numbers to the required volume of production. If there are more farmers than are needed to produce the required quantity of products some of them inevitably will be poorly paid, which is also true in any other occupation. But the distribution of the population in the industries is not one of the functions of government in a free society, and all that the Farm Board is trying to do is dependent at last upon the number of people who will try to make a living at farming. If the pay of the industry, all things considered, is lower than the pay of other industries, it is because there are relatively too many workers engaged in it, having regard to the increasing facilities for production. The regulation of such distribution by authority will be found to be more difficult even than the regulation of acreage in the different crops.

Setting out to accomplish the impossible, it is not to be wondered at that the Farm Board Act has undertaken to do it by numerous unsound, ill-advised, and impracticable provisions, and the Farm Board in its honest endeavors to accomplish something has found itself wandering around in a morass of difficulties.

The Decline of Silver

The decline of silver has been the subject of much discussion throughout the past year, partly because the price has fallen far below any figures previously known for the metal, but more particularly because the decline has been thought to be more or less of a factor in the general world depression. No doubt it is one of the factors, but opinions differ as to its importance.

The low record price for silver before the great war was 47.38 cents per fine ounce in New York (1902), but from 1910 to 1913 the range was between 54 and 65. The war created an additional demand to settle trade balances with the East and the price ran up to a high of $1.38 in 1919. From that the price worked lower, to 57⅛ in December, 1928, down gradually throughout 1929 to about 47 at the close of that year, and in 1930, the lowest price, 30¾, was reached in the last week of December.

The importance of the price of silver in world trade usually is reasoned to be on account of its use as money in Asia and the reserve of purchasing power existing there in that form. It is commonly said that a great loss of purchasing power in world trade has occurred by reason of the decline of silver. The producers or possessors of any commodity suffer a loss of purchasing power if the price declines. Of course, the value of the annual silver production is very much less than the value of any of the leading agricultural crops, but to what extent the use of silver as money in certain countries involves further complications we will consider.

The Situation in India

We venture to say that much misapprehension exists upon this point. India is always mentioned as a country in which silver has been demonetized, but India has not ceased to use silver as money, nor has it ceased to absorb very large quantities of silver annually. In 1926 an Indian Currency Commission recommended certain changes in the monetary system of India, which for the most part have not been carried into effect, but it did not recommend the disuse of silver as the common currency of the country. Long before the war, in 1899, the gold sovereign of Great Britain was made the standard coin of India, and from that time on until the war the silver currency was held in practically fixed relation to the sovereign. The gold standard was abandoned during the war, as in nearly all countries, but the fixed relations were reestablished in 1925. The decline of the price of silver bullion since then has had no more influence upon the purchasing power of the rupee currency than it has had on the purchasing power of the American silver dollar or the silver certificates based thereon. The value of silver ornaments, bullion, etc., of course, has been affected, but it is seldom that silver of this kind is moved out of India or used in current trade. The hoards have grown from generation to generation, and there is no reason to believe that the purchases of India in foreign markets have been affected by the depreciation of these.

The Government of India maintains a currency department where silver currency and paper currency are interchanged at the request of holders, but the volume of paper currency in circulation has not increased in recent years. The total was 1,882,000,000 rupees at the end of the fiscal year 1927-1928, 1,880,000,000 at the end of the year 1928-1929, 1,772,000,000 at the end of 1929-1930, and 1,648,000,000 on November 22, 1930, the latest date for which we have figures. There has been no gold coinage in recent years. No other kind of money has been substituted for silver. If the people of India have been using less silver it is because they have been using less money in the aggregate, because of falling prices and disordered trade.

Effects of the War Upon India's Silver Holdings

During the war and years immediately following, commodity prices were high and the balance of trade in favor of India was so large that serious difficulty was experienced in making the settlements as usual, by shipments of gold and silver. London was disturbed by a threat of heavy loss of gold from its banking reserves. In this emergency an arrangement was made with the Government of the United States by which the silver dollars held in the Treasury vaults were sold to Great Britain, melted and sent to India in the trade settlements, the dollars being subsequently replaced by the purchase and coinage of new bullion.

Thus imports of silver into India were exceptionally large in those years, aggregating 241,747,804 fine ounces in the year ended March 31, 1919, and excepting the fiscal year 1920-21 have been large ever since. As a result of these accumulations, needed when prices were high and business was active, the rupee currency became redundant when commodity prices declined, and more so with the business depression and political disorders of the last year. The silver coins have come back into the Indian Treasury in burdensome quantities, and with no prospect of an increasing demand for them in circulation the Indian Government has melted down and sold a quantity aggregating, according to latest advices, about 82,500,000 fine ounces since the middle of 1926. This does not equal the excess imports of the war years. Notwithstanding these sales, the amount of silver coins in the Treasury has increased from 909,000,000 rupees on June 30, 1926, to 1,225,000,000 rupees on November 22, 1930.

Unquestionably the Treasury sales have been a disturbing factor in the silver market, but they are a result of the abnormal imports of the war period and following. The low price of silver now is a result of the high prices in 1918-1919, just as the low price of wheat now is a result of the high prices of the war period and years following.

Recent Absorption of Silver by Asia

The absorption of silver by India and China in the last six calendar years, as reported by Handy & Harmon, well known silver brokers, New York, have been as follows:

(Millions of Ounces)

Absorption by:	1924	1925	1926	1927	1928	1929
India	108.2	106.7	91.6	90.0	89.0	81.8
China	41.7	59.4	73.9	85.0	124.0	136.7

It should be understood that these are private bullion importations and that the government has not been buying for coinage in these years.

At this writing total figures for 1930 are not available, but partial figures indicate that imports of silver into India have been as large as in 1929, and that a considerable decline has occurred in the takings of China. The outstanding reason for the falling off of Chinese importations has been the terrible state of social disorder existing in the country. Banditry has been rampant and not only have production and trade suffered, but large quantities of silver were moved from the interior to Shanghai for safety. The stocks of silver in Shanghai in the last year have been the largest ever known, which of course has not been favorable to imports. The highest figures for these accumulations in 1930 were 241,000,000 ounces, but at the close of the year they had declined to 216,000,000, which is a sign of improving conditions.

The information available goes to show that the falling off of trade between Asia and the western world has been a cause of the decline in the price of silver rather than a result of it. The Indian boycott of British goods and the civil war in China have been the principal factors in the trade situation, while the stagnation in trade and low prices for products have been an influence tending to reduce the volume of currency in use. Exports of India declined in value 19.5 per cent in the first ten months of 1930 in comparison with the corresponding period of 1929, and imports declined by 19.9 per cent. United States exports to China, Hong Kong and Kwantung declined from $115,180,000 in the first nine months of 1929, $80,000,000 in the corresponding period of 1930. Imports into the United States from the same regions in the same periods declined from $135,990,000 to $97,200,000. These figures indicate that trade is disturbed between the East and the West about as between other parts of the world, but not in a distinctly worse degree. It may be, however, that the conditions in India and China have been a primary influence affecting all world conditions.

Disuse of Silver as Money

The war had an adverse effect upon silver in that the high prices which prevailed for a time, together with the depreciation of paper currencies caused the subsidiary silver coins of many countries to disappear from circulation, and in some instances they were replaced by coins of lower silver fineness. The most notable instance of this was in the case of England, which reduced the fineness to 50 per cent, thereby permanently affecting the consumption of silver for that purpose. This movement probably has about run its course, although a recent development of some importance has been the change in the monetary system of Indo-China, a French colonial possession, where the gold standard has been adopted and a considerable quantity of old silver piaster coins have been sold on outside markets. Mr. E. Kann, of Shanghai, a banker frequently quoted on Asiatic financial affairs, has estimated the silver sales of Indo-China in the last two years at 50,000,000 ounces.

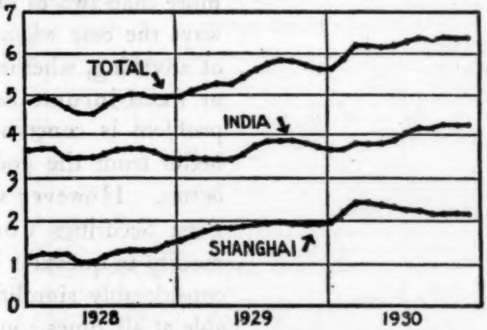
The World Silver Situation

The production of silver in the world has been larger in recent years than ever before, 1928 having been the record year, with an output of 257,000,000 fine ounces, and 1929 next with 256,500,000 ounces. The yield of 1930 will be less on account of the lessened production of other metals with which silver is mined,—probably not over 240,000,000 ounces. Considerable additional amounts have been available from melted coins, as illustrated by the Indo-China sales named above.

It will be seen that India and China are the great markets for silver, taking in the years 1924-1929 not far from 200,000,000 ounces per year, or nearly four-fifths of the world's production, and there is little reason for thinking that they will not continue to absorb it about as in the past. It is particularly suited to serve them as money, because the great mass of retail transactions are too small for a gold currency. For precisely the same reason silver is not a convenient medium of financial settlements between the nations of the western world. Even at the Bryan value ratio of sixteen ounces of silver to one of gold, the factor of transportation costs is against silver, and at 65 cents an ounce approximately 32 times the bulk and weight of metal would have to be handled and transported if international settlements were made in silver instead of gold. Exchange transactions usually are handled on very small margins and the business world takes account of small economies. Therefore it is improbable that silver ever will be used again as the money of final settlements between the countries leading in volume of financial transactions.

Silver has its place in the monetary world, and it would be desirable if more stable relations between it and gold could be established. The violent fluctuations in those relations in recent years, like many other disturbances, are mainly traceable to the enormous upheaval in international relations caused by the war. It is quite probable that with general restoration of normal conditions greater stability in their relations will be restored. Exhaustion of the old silver coin stocks will help and a restoration of order in Asia and growth of the industrial and commercial importance of those countries also will exert an influence to that end.

The following chart shows the course of visible silver stocks in India and China (in banks and bazaars) in the last three years. The top line, designated as "total," represents a combination of the stocks of India and Shanghai:



Stocks of Silver in Indian Treasury and Shanghai —figures in hundreds of millions of fine ounces